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SUBJECT: Journey to the West Heads South to the Guangxi
Border with Vietnam

Ref: A) Guangzhou 4831 and previous, B) Guangzhou 4352

C) 05 Guangzhou 22787, D) 05 Guangzhou 21369 (last two
notal)

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11. (SBU) Summary: In Guangxi, the three port cities of Pingxiang, Dongxing and Fangchenggang boast a relatively healthy trade with neighboring Vietnam, though Dongxing's and Fangchenggang's access to the sea demonstrate a clear economic advantage over land-locked Pingxiang. Budding signs of foreign investment and real estate development, combined with the market potential of other ASEAN member countries, offer some economic promise to the region particularly in the urban areas with direct land and sea links with Vietnam. End Summary.

Congzuo Overview

12. (U) After receiving the perspective of the Vietnamese Consul General as part of the Consulate's "journey to the west" (ref A), Congenoffs proceeded south by expressway to Guangxi's border with Vietnam. The Consulate party met first with Deputy Secretary General Qin Qun of Congzuo, the prefecture supervising Pingxiang, who described the area's economic potential, particularly in light of its proximity to Vietnam and recent improvements to infrastructure. Qin stated that the RMB 14.8 billion (approximately USD 1.8 billion) GDP in 2005 reflects a year-on-year 13% GDP growth rate, a 12.8% increase in revenues, and a 45% increase in foreign trade to USD 440 million.

13. (SBU) Qin attributed Congzuo's growth to three main factors. First, he noted the strength of agricultural products, stating that the Congzuo area produces among the highest levels of sugar in Guangxi province, at over 1,000 pounds per capita or 15 million tons total. The area also produces per annum USD 2 billion of manganese. Next, the Deputy Secretary General touted the area's tourist sites such as the Detian waterfall and Zhuang minority cultural destinations. A native of Guilin, Qin also compared the karst mountain scenery in Congzuo very favorably with the famous scenery of his hometown. Finally, the Deputy Secretary General cited the new Nanning-Pingxiang highway

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as an opportunity for economic growth. This new toll road opened in December 2005 and reduced driving time by nearly fifty percent, from over four hours to two and one half hours. (The costly toll may be prohibitive for potential users; in the round-trip drive from Nanning to Pingxiang, Congenoffs noted the lack of traffic on both sides, particularly the absence of large cargo trucks transferring goods. The cost is RMB 180 (approximately USD 22) for a two-axle vehicle to travel one-way from Nanning to Hanoi)

First Pacify; Now Befriend

¶4. (U) In a subsequent meeting, officials from Pingxiang's Commerce Bureau explained that Guangxi has had trade relations with Vietnam since 1992, and that last year more than 100 export/import companies handled USD 340 million in trade with Vietnam. In addition to fostering bilateral trade relations with Vietnam, Pingxiang has begun developing relations with other ASEAN member countries as well. On January 1, 2005, Pingxiang dropped all tariffs on agricultural products coming from other ASEAN countries, and over the past year has seen big increase in trade. The officials explained that the trade of agricultural products remains the main economic focus. Guangxi's plans to promote regional trade through the upgrade of product exhibition centers. They cited Guangxi's plans to invest RMB 1 billion (approximately USD 124 million) to develop a China-ASEAN logistic park

¶5. (U) The Pinxiang officials stated that in 2005, Vietnam and China announced the creation of two economic corridors between Hanoi and Kunming, and Hanoi and Nanning, which includes the border towns of Pingxiang and Dongxing. As a result, Pingxiang expects an increase in its service sector

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as well as development of expanded rail services to Hanoi. The creation of the economic corridor also coincided with the recent opening of the Nanning-Pingxiang expressway. When asked about the efficiency of the road network on the Vietnamese side, local officials acknowledged that Vietnamese roads are poorer than those on the Guangxi side. They did, however, mention the Greater Mekong Sub region (GMS), a grouping of six Mekong River Delta entities including Guangxi, one of whose goals is to promote economic growth of member entities in part through developing infrastructure with an emphasis on transportation.

¶6. (U) When asked about border crossings for cargo vehicles, the Pinxiang Commerce officials stated that cargo vehicles are required to go to designated border points to offload goods to domestic trucks; the same rule applies on the Vietnamese side. They said that the two countries are moving towards the use of dual-country license plates to bypass the offloading step. (Comment: It appears that the adoption of cross-border license plates has not moved very quickly to date, but may speed up through ASEAN-initiated mechanisms.) They claimed that Guangxi offers the quickest entry point for goods, as vehicles can cross and depart in a single day. When asked about following sanitary and phyto-sanitary guidelines, they replied that Pingxiang follows international standards and has no problems regarding plant and animal trade between Vietnam and China. She confirmed that imported goods are inspected upon entry.

¶7. (U) Congenoffs visited Pingxiang's truck crossing point, at the free zone area of Puzhai. Nearly six thousand trucks per month cross Puzhai in both directions, and the designated transfer point that Congenoffs visited processes one to two hundred trucks per day. Immediately inside the border, the government is building an overly large administrative and commercial structure in anticipation of greatly increased trade flows. Despite the relatively high

volume of trade in the region, however, the people seemed poor and the town was dirty. Local officials did not show us the red light district, which is buried in the back alleys of Puzhai. Consulate officials visited the red light district in June 2005, as part of a HIV/AIDs reporting trip (ref C).

¶8. (U) Pingxiang's second crossing point at You Yi Guan (or, Friendship Gate) handles some trucks but primarily is intended for foot traffic. Congenoffs observed some tourists and several people hand carrying goods across the border, but the crossing was rather desultory in trade. Local regulations allow individuals to carry across goods worth up to RMB 3,000 (approximately USD 372) an unlimited number of times each day. (Comment: This regulation does not seem to have much impact at the You Yi Guan crossing because not much trade was going on, even on a Friday morning.) You Yi Guan was formerly called Zhen Nan Guan, or "Pacify the South (meaning, Vietnam) Gate."

A Brisk Trade, All on Foot

¶9. (U) The following day, Congenoffs visited another crossing point at Dongxing, adjacent to the Tonkin Gulf (Beibu Wan). The town has seen significant amounts of development in recent years, as exemplified by the relatively well decorated new buildings lining both sides of the road leading to the border crossing, as well as new construction in the town. Dongxing appears much wealthier and economically vibrant than the competing border zone of Pingxiang, and a large number of brand name shops seem to be doing a brisk business. Despite having fewer residents than Pingxiang, Dongxing appears to have benefited more from trade with Vietnam. Local officials emphasized, for example, that no spare land is available for development in urban Dongxing. They noted that four real estate development companies and over thirty logistics companies currently operate in town. Officials also pointed out the current development of a "China product city" intended to facilitate trade through the Dongxing area. At the edge of town, we observed a new center for products from "Yiwu," obviously named for the famed market city near Shanghai, as

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well as a separate designated construction site for a China-ASEAN building materials center.

¶10. (U) At the border crossing, an Inspections and Quarantine official explained that a large number of visits each day consists of small border traders who make multiple trips carrying goods under the RMB 3,000 limit. This activity appears in sharp contrast to the relative dearth of foot traffic at the You Yi Guan crossing in Pingxiang. Conversely, the Dongxing crossing averaged only one cargo truck a day, a number eclipsed by the nearly two hundred trucks entering at Puzhai. The Inspections official noted a travel exception for "tourism" vehicles, which are allowed to traverse 200 km from the border on both the China and Vietnam sides, reaching as far as Nanning and Hai Phong on either side, but not as far as Hanoi, which is 230 km from the border.

A New Kid on the Block: No Rival to Guangdong

¶11. (U) In contrast to the hustle and bustle of Dongxing, Fangchenggang, which is the administrative center at the prefecture level for Dongxing and its nearest port town, appears to be a sleepy town with little economic activity in sight. Fangchenggang's Vice Mayor Xi Yang indicated that the main reason for backward development of the area is due to the conflict with Vietnam in the 1970's and 1980's. Formal reopening of border areas did not begin until 1992, and Fangchenggang was not reorganized as a town until 1993, and so the city and port are quite young. The town took over the port role formerly located in Dongxing because authorities wanted to remove the port from the

range of Vietnamese artillery, which had pounded the area as late as 1984. The Vice Mayor also mentioned that the largely urban nature of the population is also due in large part to the tensions between China and Vietnam. He noted that Fangchenggang is the smallest prefecture in Guangxi Province, and 500,000 of its 800,000 residents are urban dwellers, an unusual statistic in an otherwise heavily rural region.

¶12. (U) Despite the town's late start, Vice Mayor Xi was upbeat about both the recent growth in the town's economy and its potential for the future, projecting a goal of four hundred percent growth in GDP over the next five years. He stated that Fangchenggang expected to exceed goals outlined in its eleventh five-year plan through further development of the port cities, trade and industry, particularly by attracting both domestic and foreign investment sources. The Vice Mayor noted Fangchenggang's intent to bring in foreign expertise to develop the state-owned port, as it already has brought in a large Spanish port management company and a large Hong Kong group, which, combined, will spend several hundred million RMB. The advantage of Fangchenggang (as with Dongxing) over Pingxiang is the access to the sea.

¶13. (U) Fangchenggang is the closest seaport for products from Yunnan, Sichuan, Guizhou and other western provinces, and hopes to expand its role as the gateway for China's west. Shipping lines leaving Fangchenggang go to such diverse places as Shenzhen, Hong Kong, Singapore, San Francisco and Pusan. However, Vice Mayor Xi was clear in acknowledging that the port city's largest competitor for export traffic is Zhanjiang in western Guangdong province. Each year, Fangchenggang's port handles 45,000 containers and 20 million tons of bulk cargo consisting of ores and agricultural products, compared to rival Zhanjiang's 170,000 containers and 40 million tons in 2005. The Vice Mayor also noted sadly that all of the fruit imported from Thailand did not go through Fangchenggang, the nearest port, but rather via Shenzhen, which has a long and illustrious record of distribution of fruits and other goods.

The Port Itself -- Hope Springs Eternal

¶14. (U) A visit to Fangchenggang port itself included a perusal of a large American investment, Archer Daniels Midland, which now owns one hundred percent of what was

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previously a joint enterprise with a Chinese state-owned enterprise and a Singaporean company. The American company has a large soybean crushing facility to produce food oil at the Fangchenggang port. Another significant project in the pipelines for the town is a proposed steel project initiated by the Wuhan Iron and Steel and Liuzhou Iron and Steel companies. These two companies plan to invest RMB 80 billion (approximately USD 9.9 billion) for the first phase of the plant. (From our conversations with Liuzhou officials earlier in the trip, steel products produced by the plant will serve both the domestic and export markets.) The project is awaiting final approval from the central government, but the Guangxi authorities already are heavily promoting the project (ref B). Vice Mayor Xi mentioned that with the current oversupply of steel manufacturing capacity in China, Beijing may shut down less efficient production sites in other areas. He also noted that Fangchenggang already sees major imports of coal and iron ore, particularly iron ore from Australia. As Fangchenggang's growth strategy rests on three peninsulas, with the western-most peninsula focusing on tourism and the middle peninsula on the city and port economy, the eastern-most peninsula is the intended site for the Wuhan and Liuzhou iron and steel companies steel project. The city also will extend a rail spur from the port line over to the steel plant once the project is approved.

¶15. (U) Fangchenggang's port area currently has 34 berths with a ten thousand-ton capacity and the space to build one hundred additional berths of the same capacity. The port has a number of berths capable of handling vessels up to twenty thousand tons, with five additional berths of the same capacity and one fifty thousand ton crude oil dock planned for the future. Local officials noted the town's goal to expand the bulk cargo volume to sixty million tons per year, and to specialize the various berths by product category. Currently, there is no separation of products, as we watched bauxite being unloaded immediately adjacent to soybeans presumably for the Archer Daniel Midland facility. Fangchenggang has three thousand port workers; the number of workers has not changed in the past ten years, even though cargo volume has increased fivefold to twenty million tons in same period. In comparison, rival port Zhanjiang has ten thousand workers for more than triple the number of containers and double the level of cargo (ref D). Furthermore, Fangchenggang's port officials claimed that the actual volume difference between the two is not as great as the numbers would suggest, because ten million tons of the total amount is crude oil imports, and another seven to eight million tons is consumed locally by Zhanjiang.

¶16. (U) Though it shares the same customer base with Guangdong's Zhanjiang port, Fangchenggang aims to surpass its main rival as the major bulk port in southern China by competing through a combination of improved service and lower costs. Last year, Fangchenggang experienced a twenty-five percent growth in total volume, while its operating costs already are much lower than those of Zhanjiang. In addition, as a bulk cargo port that handles a large amount of iron ore, coal and other products, the port is dirty but compares favorably in cleanliness and organization to rival Zhanjiang's port. On the other hand, Fangchenggang's port equipment is relatively old fashioned and inefficient, using a series of cranes with scoops to transfer bulk cargo to chute loaders or onto conveyor belt. The port has only two vacuum systems for grain and two container cranes at port side, but port officials said that after the expansion of berths they hope to purchase more up to date equipment. Finally, it appeared that many of the loading and unloading techniques were inefficient, with bags of fertilizer being hand-unloaded from containers before being palletized. Inefficient practices, in combination with the prevalence of old machinery, leave much room for Fangchenggang's future modernization and improvement.

Comment

¶17. (U) Despite having a number of different development

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promotion packages at their disposal, such as the Greater Mekong Sub region package, the Greater West program and the China-ASEAN corridor, Congzuo and Pingxiang seem to be pinning its hopes for future growth mostly on Vietnam. Though Congzuo and Pingxiang each has its own industrial development areas boasting low land and labor costs aimed primarily at ASEAN business, their emphasis on cross-border trade in cheap agricultural products such as sugar raises questions about the area's ability to achieve the predicted high levels of GDP growth. At the same time, while Dongxing and Fangchenggang appear to be thriving port towns, they are still a long way from attaining their vision of regional domination. Southern Guangxi cannot overlook its eastern neighbor, Guangdong Province, whose ports of entry are potent competitors with the resources and long-standing records of distribution throughout the country. And at least some of the growth of these border cities is fueled by "spillover" investments by Guangdong entrepreneurs looking to expand their operations.

¶18. (SBU) There is dark side to those Guangxi cities bordering Vietnam, including the threats of HIV/AIDS (and its origins in prostitution and narcotics use) and Avian Influenza. These topics will be taken up in the next message in the Consulate's series on its "journey to the west."

¶19. (U) This message has been cleared by AmEmbassy Hanoi.

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